

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION FOR AN ADJUSTMENT OF)	
RATES BY PHELPS GAS COMPANY PURSUANT)	
TO THE ALTERNATIVE RATE ADJUSTMENT)	CASE NO. 9515
PROCEDURE FOR SMALL UTILITIES)	

O R D E R

On July 10, 1986, the Commission issued its Final Order in this proceeding wherein it granted Phelps Gas Company, Inc., ("Phelps") additional revenues of \$11,453. On July 28, 1986, Phelps filed for rehearing on two issues: (1) Interest expense and (2) Interest on past-due billings.

Following are the Commission's findings regarding Phelps' petition for rehearing:

Interest Expense

Phelps proposed in its application that interest expense be included as an operating expense. In denying this proposal the Commission found that the methodology proposed by Phelps for determination of rates excludes interest expense from operating expenses as a rate-making item except as it may affect income taxes, because interest expense is included in the allowed return.

The application for rehearing filed by Phelps makes an argument that the interest should be allowed because the debt is, in part, related to capital expenditures; however, Phelps has not explained why this is a valid reason to deviate from the normal

treatment of interest. Phelps is apparently basing its argument on the mistaken premise that interest on capital items is an operating expense, and that if it can show that the debt is related to capital items, recovery of the associated interest would be allowed. This is an incorrect assumption by Phelps since recovery comes through the rate of return.

Phelps in its application for rehearing has not advanced evidence sufficient to merit rehearing on this issue.

Interest on Past-Due Billings

In its Order dated July 28, 1986, the Commission disallowed \$3,663 of test-year interest expenses which were a result of late charges imposed upon Phelps for late payment of gas purchases, finding that under the methodology proposed by Phelps for computation of its revenue requirement and return on rate base, interest expense is classified as a nonoperating expense item and, therefore, a cost to be borne by the stockholders rather than the rate-payers.

Phelps states that the Commission "contradicts its own actions" by disallowing these late charges because the Commission approved the Columbia Gas Company, Inc., tariff which permits the imposition of the late charges. The Commission does not view this as a contradiction. Phelps merely states that it is and advances no arguments to support its position. Therefore, there is insufficient basis for granting of rehearing on this issue.

Phelps further argues that the Commission was inconsistent in disallowing this interest because, "The Commission allows interest on customer deposits. (and) The Commission allows interest on

liability insurance." These statements by Phelps are incorrect; the Commission does not include these interest accounts in utility operations.

SUMMARY

The Commission, after consideration of the petition for rehearing, the record in Case No. 9515 and being otherwise advised, is of the opinion and finds that:

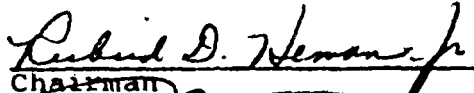
1. For the reasons stated herein above, the application for rehearing submitted by Phelps should be denied.

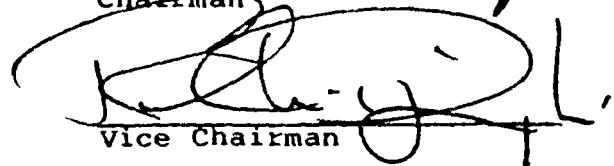
IT IS THEREFORE ORDERED that:

1. The petition for rehearing is hereby denied.

Done at Frankfort, Kentucky, this 18th day of August, 1986.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director